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C O N F I D E N T I A L SECTION 01 OF 02 BRATISLAVA 000365

SIPDIS

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TAGS: [PGOV](#) [KGHG](#) [SENV](#) [KCOR](#) [JA](#) [LO](#)
SUBJECT: FICO CALLS FOR END TO CO2 PERMITS DEAL

REF: A. A. BRATISLAVA 241
[1](#)B. B. BRATISLAVA 207
[1](#)C. C. BRATISLAVA 195
[1](#)D. D. BRATISLAVA 191

BRATISLAVA 00000365 001.2 OF 002

CLASSIFIED BY: Keith A. Eddins, CDA, EXEC, DOS.
REASON: 1.4 (b), (d)

[1](#)1. (C) SUMMARY: After months of defending the sale of assigned amount unit (AAU) CO2 permits to the U.S.-registered Interblue Group (refs A, B, and C), Prime Minister Robert Fico has publicly acknowledged his opposition to the contract. While cancellation of the deal will likely prevent Interblue from exercising the option of buying additional AAUs as stipulated by the contract, it will be difficult to undo the sale of AAUs concluded last year (Interblue appears to have subsequently sold those permits to third parties in Japan). Still, Fico's concession represents an important victory for the opposition and press, proving that domestic pressure might be enough to move the PM on a critical issue. END SUMMARY.

EC UNABLE TO RESPOND; PRESS AND DOMESTIC OPPO STEP IN

[1](#)2. (C) In the months after full publication of the contract that allowed the Interblue Group to buy 15 million tons of AAUs at a below-market price of EUR 5.05, the dispute settled into a pitched battle between the GOS and the opposition. While the European Commission (EC) has been successful in pressuring the GOS to take action on a number of other issues (refs A and D), the EC did not appear to have a clear role in the Interblue case. As Andrea Elschekova Matisova, Head of Representation of the European Commission in Slovakia, explained, the EC is watching the case closely but would not take any formal action. Some of Fico's critics suggested the EC might indirectly pressure Slovakia by blocking Slovakia's bid for an Energy Commissioner seat in the EU, but it was clear that the primary pressure to cancel the contract would have to come from another source.

[1](#)3. (C) Lacking the possibility for EC action, the pressure to cancel the contract fell upon the local press and domestic opposition. Both parties vigorously filled this role. The opposition repeatedly called for greater transparency from Fico and Environment Minister Viliam Tursky. Meanwhile, the press ran stories documenting the success of Slovakia's neighbors in concluding deals at much higher prices.

GOJ WAS PREPARED TO PAY A HIGHER PRICE?

14. (U) Particularly damning was the recent string of stories the press ran regarding the breakdown of negotiations between the Japanese government's NEDO (New Energy and Industrial Technology Development Organization) and the GOS for the sale of CO2 permits in the 2006-2007 period. Hospodarkse Noviny (HN), a leading business daily, published a story citing correspondence with the Japanese Embassy in Slovakia. In the article, HN says NEDO was close to signing an agreement with Slovakia similar to the ones signed with neighboring countries. From this correspondence, HN concluded that NEDO was prepared to pay a double-digit market price for Slovak AAUs. The Japanese CDA in Slovakia was quick to ask for a correction of the article saying that the GOJ did not offer specifics regarding price.

15. (C) In discussions we had with the Japanese Embassy before the press stories ran, we confirmed the GOJ attempted negotiations with the GOS in 2006-2007 but the discussion never moved past the first step, signing a memorandum that would provide the framework for GIS (Green Investment Schemes). As the Japanese Embassy officials explained, the GOJ needed assurances that a potential seller would dedicate CO2 permit proceeds to environmental projects before moving on to discussion of a potential sale. After such an MOU was in place, NEDO would then proceed to step two, development of specific GIS guidelines. Japanese officials insisted that both of these steps would need to be fulfilled before an AAU transfer agreement could be discussed.

16. (C) The Japanese officials said they aggressively courted the GOS but the Slovaks did not seem to show much interest. Perhaps operating under the assumption that ignorance is better than criminality, former Environment Minister Jaroslav Izak (2006-Summer 2008) said he has never heard of NEDO. Izak's successor, Jan Chrbet, said he had no personal involvement with any negotiations.

17. (U) In the aftermath of the HN revelations, the opposition

BRATISLAVA 00000365 002.2 OF 002

filed a criminal motion in the Prosecutor General's office. After months of describing the sale as advantageous and challenging the press and opposition to present proof of wrongdoing, Fico finally conceded that he was opposed to the contract. In the days after that admission, Fico has stepped back his opposition by saying that cancellation should only be one of the options.

HARD TO UNDO WHAT HAS BEEN DONE

18. (C) While the GOS may be able to end Interblue's option to buy AAUs in the future, it is unlikely they will be able to recoup the 15 million tons of AAUs already sold last year. These permits have reportedly been sold on by Interblue to third parties. Citing anonymous sources, the press suggests Tokyo Electric Power Company, Mitsui and Company, and Mitsubishi may have been the buyers.

19. (C) COMMENT: Even without the EC, the opposition and press have been able to chip away at Fico's defense of the Interblue deal. Getting a concession from Fico on Interblue will likely embolden the PM's opponents. With the press already beginning investigation of another scandal related to a public tender for coal waste processing, the spotlight should be particularly bright on Jan Slota's SNS and the Environment Ministry it leads according to the coalition agreement. The next casualty could be Tursky as Fico is reportedly considering the Environment Minister's dismissal this week. END COMMENT.
EDDINS